

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 415 - HB 1101

March 18, 2017

SUMMARY OF BILL: Authorizes local governments to increase local option sales tax rates by a two-thirds vote of their legislative bodies, rather than by approval of voters in a referendum.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – A potential, unquantifiable, increase in local government revenue and a potential, unquantifiable, cost avoidance for local governments that would hold a referendum not in conjunction with a regular election under current law.

Assumptions:

- Under current law, pursuant to Tenn. Code. Ann. §§ 67-6-703(b) and 67-6-706, any ordinance or resolution of a county or a municipality levying a local option sales tax or increasing such tax shall not become operative until approved in an election.
- The maximum tax authorized to be imposed is 2.75 percent. The levy of the tax by a county precludes, to the extent of the county tax, any municipality within the county from levying the tax, but a municipality shall at any time have the right to levy the tax at a rate equal to the difference between the county tax and the maximum authorized tax rate of 2.75 percent.
- It is estimated that 46 counties and 285 municipalities currently have effective tax rates that are below the maximum authorized tax rate of 2.75 percent.
- Authorizing local governments to increase their local option sales tax rates without the approval of voters could result in more future tax rate increases that would not occur under current law. However, due to multiple unknown factors, such as the number of local governments that will increase their tax rates as a result of this legislation, which would not be increased under current law, the magnitude and timing of any such increase, and the taxable base within boundaries of any such local governments, the extent of any increase in local government sales tax revenue cannot be quantified with reasonable certainty.
- This legislation will result in cost avoidance for any county or municipality that would hold a referendum not in conjunction with a regular election to increase its tax rate under current law. It is estimated that such a county-wide referendum costs range from

approximately \$10,500 to \$773,000, depending on the county. Approximately 40 counties fall in the \$10,500 to \$25,000 range, while only the top 8 counties are over \$100,000; the cost of referendum for remaining counties falls in the \$26,000 to \$94,000 range.

- The last time a county has increased its local option tax rate was in 2009; such information is not readily available for municipalities.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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